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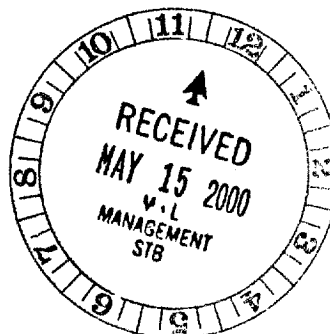
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May 10, 2000

Office of the Secretary
The Surface Transportation Board
1925 K St. NW
Washington, DC 20423

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Re: Docket # 582 Sub 1

Dear Surface Transportation Board:

On April 18, 2000 we, McKinley Paper Company, gave notice of our intention to file written comments regarding the proposed rule changes as to the way the Surface Transportation Board approves railroad mergers. These comments focus on rail mergers with an eye towards affirmatively enhancing, rather than simply preserving competition.

We support rule change and urge the board to adopt greater open access to captive regions in the U.S. served by only one rail carrier. Such actions could have prevented the following circumstances surrounding our New Mexico facility:

In 1992 Amcor, an Australian-based international conglomerate involved in the manufacturing, distribution and marketing of paper and paper products broke ground in McKinley County, New Mexico to build a 100% recycled linerboard facility, located some 100 miles west of Albuquerque, New Mexico. That facility was named and stands today as McKinley Paper Company (MPC) with Mill site located at Prewitt, New Mexico (Rail Station: PEGS). This facility from the date of opening to today has been served exclusively by the Burlington Northern Santa Fe Railroad (BNSF).

In 1994 the Mill commenced operations, receiving scrap paper/OCC in boxcars and shipping outbound finished linerboard in rolls. In order to facilitate and support the purchase of scrap paper/OCC Amcor established two corporate entities, McKinley Fiber Company (MFC) and Recycled Materials Management Inc. (RMMI). MFC and RMMI subsequently acquired two off-site paper recycling depots, one in Albuquerque, New Mexico (BNSF served) and one in Phoenix, Arizona (BNSF and UPRR served).

In October 1997 Amcor sold MPC, MFC and RMMI to Grupo Industrial Durango (GID) headquartered in Durango, Mexico. The new entity retained the name of McKinley Paper Company. GID's purpose in purchasing MPC and its sister companies MFC and RMMI was to integrate them into its system of packaging and container plants along the United States/Mexican border. This new acquisition would support other GID facilities in Mexico through NAFTA implementation strategies while also supplying recycled linerboard to other U.S. domestic customers. Future United States expansions were and are being considered by GID.

Today, McKinley Paper Company is the largest shipper in New Mexico, with 19,500 S/T of inbound scrap paper/OCC and 17,300 S/T of finished recycled linerboard outbound on a monthly basis.

The BNSF was involved from inception as an active transportation partner to MPC. The original transportation preplan called for 80% of total inbound/outbound tonnage to be shipped via rail and 20% via motor carrier, provided the BNSF maintained competitive rate levels and their service met customers' expectations and requirements. Through the end of 1997 BNSF met rate expectations even though service was spotty.

Beginning in January 1998, and without prior consultation, BNSF presented to MPC a new rate schedule for inbound scrap/OCC reflecting rate increases ranging from 12% to 30% within certain market lanes. This rate structure would take full affect by August 1998. Outbound rates increased on average 3% for the same period.

In comparison, during the same period the published RCCR data supported the expectation of rate decreases (February 1998 9.6% revenue adequacy versus 5.0% February 1997). This unexpected rate increase, along with the lack of adequate notice to MPC of the increase, did not allow MPC to alter its preplan of shipper/receiver points, or to recover the additional freights within the sales/selling price.

Contrary to our original preplan, today the ratio of inbound cargo rail/truck is 25% rail – 75% truck and outbound 10% rail – 90% truck.

On top of the rate increases for 1998, BNSF holds an additional pending rate increase for 2000 of 4%. During the same period motor carrier base rates have not increased at all, although a temporary fuel surcharge has been/will be imposed for year 2000.

In addition to the rate issues with BNSF, service continues to be a problem as well, with BNSF unable to meet equipment demands because of short supply of boxcars, power units, and needed crews/personnel.

The subject of competition into and out of the Prewitt mill site has been discussed with the Burlington Northern Santa Fe, as most, if not all, of the inbound/outbound shippers/receivers are served on an open and prepaid basis by both Burlington Northern Santa Fe and Union Pacific Railroad. To this end, in January 2000, BNSF acknowledged in writing, the possibility of Union Pacific service into/out of PEGS, New

Mexico providing a reciprocal agreement could be reached between the two companies covering fees and usage.

According to the published station list the State of New Mexico has 226 rail stations of which; 177 are closed on the BNSF, 41 are closed on the UP and 8 are open to both BNSF and UP.

The non-competitive rate and service stance of the BNSF has caused McKinley Paper Company to lose scrap paper suppliers, that either only ship by rail or have a strong preference for rail service; and receivers of finished product who dictate land carriage terms and conditions.

McKinley Paper is also at a competitive disadvantage versus other paper mills that are served by the two rail carriers, each competing with the other in terms of rates and service. Example: International Paper Mill – Mansfield, LA // Boise Cascade Mill – De Ridder, LA // Inland Packaging Mill – Orange, TX.

In summary, McKinley Paper Company would like to ship more inbound and outbound cargo via rail, as it fits our mill operations more efficiently than loading/unloading trucks, but a lack of competition in our opinion keeps rail at a non competitive stance, aggravated by a lack of necessary equipment. The introduction of competition (Union Pacific Railroad) would provide for market competitive rate structures and an adequate equipment supply.

McKinley Paper Company supports the amendment to the rules allowing for more open access competition into areas such as New Mexico within the railroad merger approval process.

Sincerely,


Wayne Johnson
Transportation / Logistics Manager

cc: Party of Record
Ing. Miguel Rincon
Pule Calderon
Catherine A. Cole / President, C.I. International Inc.